

South Macomb Disposal Authority

Financial Report

June 30, 2008

South Macomb Disposal Authority

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Independent Auditor's Report

To the Board of Directors
South Macomb Disposal Authority

We have audited the accompanying basic financial statements of South Macomb Disposal Authority as of June 30, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Macomb Disposal Authority at June 30, 2008 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 3, 2008

South Macomb Disposal Authority

Management's Discussion and Analysis

Using this Annual Report

South Macomb Disposal Authority (the "Authority") is a joint venture of five cities located in southern Macomb County: Center Line, Eastpointe, Roseville, St. Clair Shores, and Warren. The primary roles of the Authority are to manage the transfer of solid waste currently collected by all of the member cities (except Warren) and to provide for the postclosure care of landfill sites previously operated by the Authority. The Authority does not currently operate any landfill sites. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. These are followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the dual missions of the Authority. From a financial perspective, the Authority's core objective (and ongoing operation) is to manage the costs of solid waste transfer for Center Line, Eastpointe, Roseville, and St. Clair Shores. With respect to this core objective, the Authority acts as a conduit for the four participating members. The amounts to be charged to the participating members for these services will, therefore, approximate the Authority's costs of providing solid waste transfer services. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources). To this end, the net assets of the Authority related to ongoing operations are approximately \$769,000, of which approximately \$418,000 is invested in capital assets.

The other objective of the Authority is to provide for the postclosure care of landfill sites previously operated by the Authority, including all of its original five member cities. In prior years, the Authority successfully sued its insurers and received a settlement for remediation of its previously owned sites. Under the terms of the settlement, the Authority's continuing insurance coverage is limited to costs of defense, past response costs, and the cost of remedial investigation on any owned sites for which the Authority has continuing maintenance and monitoring responsibilities. At June 30, 2008, the Authority has two remaining landfill sites. The Authority has recorded an estimated liability for a study on these two landfill sites to assess the level of contamination and to determine the level of potential remediation costs. The entire liability related to this study has been recorded as a current liability of \$280,000.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

In addition, the Authority had previously received a total of approximately \$5,700,000 in landfill grant funds from the State of Michigan to assist with the remediation of Sites 9 and 9a that are no longer owned by the Authority. The State demanded that these funds be returned since the Authority received reimbursement from its insurers. On May 4, 2005, the Macomb County Circuit Court upheld the State's demand, which the Authority appealed to the State of Michigan Court of Appeals. On October 17, 2006, the State of Michigan Court of Appeals affirmed the decision and mandated the Authority to pay back to the State of Michigan the grant monies previously received. However, the State of Michigan Court of Appeals indicated that the current ruling could be reduced by previous costs the Authority incurred in obtaining the insurance reimbursement for the sites. The State of Michigan Court of Appeals directed this decision to be made at the Macomb County Circuit Court level. On August 6, 2007, the Macomb County Circuit Court upheld the decision that the Authority would need to repay the full amount of landfill grant funds of approximately \$5,700,000 back to the State of Michigan plus interest. Per the settlement agreement, the Authority is responsible to pay back the State of Michigan \$6,610,739 as of June 30, 2008. This amount includes the accrued interest on the original \$5,700,000. The attorneys that represented the Authority in its claim against the insurers will reimburse \$469,521 of legal fees to the Authority. The payable and receivable are reflected in the Authority's statement of net assets as of June 30, 2008. The liability was fully paid by the Authority to the State of Michigan on November 4, 2008 in the amount of \$6,680,638. As of the payment date, an additional \$69,899 of additional accrued interest had accumulated.

Condensed Financial Information

The following tables present condensed information about the Authority's financial position compared to the prior year.

In the first table, net assets increased by approximately \$79,000. This is due to the liabilities increasing by an amount less than the asset increase in the current year. Overall, liabilities increased by approximately \$582,000 and assets increased by approximately \$660,000. The increase in liabilities was mainly due to an increase in accrued postclosure care liabilities due to the landfill grant repayment litigation being finalized and including the accrued interest calculation on the liability at June 30, 2008. At June 30, 2008, the Authority was responsible for paying \$6,610,739 back to the State of Michigan. This liability was fully paid on November 4, 2008. The amount paid was \$6,680,638 due to additional interest accruing from July 1, 2008 through the payment date of November 4, 2008. The Authority's assets still were able to increase during the year ended June 30, 2008 mainly due to the cash reserves interest earnings being strong during 2008 and the Authority did not invest in capital during the current year.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

In the second table, the most significant change is the increase in legal expense related to closed sites. This was attributable to the landfill grant repayment litigation being finalized. The Authority was responsible for paying \$6,610,739 back to the State of Michigan at June 30, 2008. This was an increase from the prior year's estimated liability to the State of approximately \$894,000. This increased liability was netted against the forgiven debt to the Authority's defending legal counsel for this case due to the case being lost.

	June 30		Change	
	2008	2007	Amount	Percent
Assets				
Current assets	\$ 12,059,016	\$ 11,373,156	\$ 685,860	6
Capital assets	649,601	675,140	(25,539)	(4)
Total assets	12,708,617	12,048,296	660,321	5
Liabilities				
Total liabilities	7,005,465	6,423,770	581,695	9
Net Assets				
Invested in capital assets	649,601	675,140	(25,539)	(4)
Unrestricted	5,053,551	4,949,386	104,165	2
Total net assets	<u>\$ 5,703,152</u>	<u>\$ 5,624,526</u>	<u>\$ 78,626</u>	1

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

	Year Ended June 30		Change	
	2008	2007	Amount	Percent
Operating Revenue				
Disposal fees	\$ 1,370,136	\$ 1,379,610	\$ (9,474)	(1)
Administrative fees	77,459	78,124	(665)	(1)
Total operating revenue	1,447,595	1,457,734	(10,139)	(1)
Operating Expenses				
Operations and maintenance	88,064	84,119	3,945	5
General and administrative	74,750	67,624	7,126	11
Contracted disposal costs	1,200,267	1,230,544	(30,277)	(2)
Total operating expenses	1,363,081	1,382,287	(19,206)	(1)
Nonoperating Revenue (Expenses)				
Postclosure and remediation costs	(17,845)	(21,431)	3,586	17
Investment and other income	626,104	635,486	(9,382)	(1)
Unrealized loss in fair value	(67,149)	(90,212)	23,063	26
Other legal expenses related to closed sites	(546,998)	(201,466)	(345,532)	(172)
Total nonoperating revenue (expense)	(5,888)	322,377	(328,265)	(102)
Net Income	\$ 78,626	\$ 397,824	\$ (319,198)	(80)

At June 30, 2008, the Authority has only two landfill sites for which it is responsible for future postclosure care. Annually, the Authority expenses any postclosure care costs related to the two remaining sites of the Authority. As previously mentioned above, the Authority has recorded an additional estimated liability for a study on these two landfill sites to assess the level of contamination and to determine the level of potential remediation costs. The entire liability related to this study has been recorded as a current liability of \$280,000.

Net Asset Designations and Risk Management

The Authority has potentially significant economic issues to resolve over the next several years related to the two remaining landfill sites. The potential liability will be assessed further in the contamination assessment projected to be completed during the next few years. The accumulated net assets for postclosure care costs have been set aside by the Authority's governing body to serve as a reserve fund for potential remediation costs for which the Authority is now uninsured.

Economic Factors and Next Year's Budget

For ongoing solid waste transfer operations, costs will be dependent on the volume of solid waste hauled. The Authority's budget for the year ending June 30, 2009 forecasts a moderate increase in solid waste and, therefore, costs.

South Macomb Disposal Authority

Management's Discussion and Analysis (Continued)

The Authority has estimated and recorded the known postclosure care liabilities related to the assessment study and the estimated liability to the State of Michigan associated with previously received landfill grant money as of June 30, 2008. There are no other material claims against the Authority as of June 30, 2008. However, the Authority will amend its budget as necessary for additional costs assessed by regulatory authorities.

Contacting the Authority's Management

This financial report is intended to provide our member cities with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member cities and other sources. If you have questions about this report or need additional information, we welcome you to contact the Authority's offices.

South Macomb Disposal Authority

Statement of Net Assets June 30, 2008

Assets

Cash and cash equivalents (Note 3)	\$ 276,676
Investments (Note 3)	11,041,036
Accounts receivable	263,397
Prepaid insurance	8,386
Receivables related to site remediation - Insurance and other (Note 7)	469,521
Land not being depreciated	254,963
Capital assets subject to depreciation (Note 4)	<u>394,638</u>
Total assets	12,708,617

Liabilities

Accounts payable	114,726
Accrued postclosure care and remediation liabilities - Due within one year (Note 7)	<u>6,890,739</u>
Total liabilities	<u>7,005,465</u>

Net Assets

Invested in capital assets	649,601
Unrestricted (Note 5)	<u>5,053,551</u>
Total net assets	<u><u>\$ 5,703,152</u></u>

South Macomb Disposal Authority

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

Operating Revenue

Disposal fees	\$ 1,351,841
Closure cost billings	18,295
Administrative fees	<u>77,459</u>
Total operating revenue	1,447,595

Operating Expenses

Operations and maintenance	88,064
General and administrative	74,750
Contracted disposal costs	<u>1,200,267</u>
Total operating expenses	<u>1,363,081</u>

Operating Income

84,514

Nonoperating Revenue (Expenses)

Postclosure and remediation costs (Note 7)	(17,845)
Investment interest income	626,104
Unrealized loss in fair value	(67,149)
Other legal expenses related to closed sites (Note 7)	<u>(546,998)</u>
Total nonoperating expenses	<u>(5,888)</u>

Net Income

78,626

Net Assets - Beginning of year

5,624,526

Net Assets - End of year

\$ 5,703,152

South Macomb Disposal Authority

Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

Cash received from customers	\$ 1,561,520
Cash payments to suppliers for goods and services	<u>(1,649,675)</u>
Net cash used in operating activities	(88,155)

Cash Flows from Capital and Noncapital Financing Activities -

Net postclosure care, remediation costs, and legal attorney expenses	259,464
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Cash Flows from Investing Activities

Net cash equivalents invested in investment vehicles	(868,611)
Interest received on investments	<u>626,104</u>
Net cash used in investing activities	<u>(242,507)</u>

Net Decrease in Cash and Cash Equivalents (71,198)

Cash and Cash Equivalents - July 1, 2007 347,874

Cash and Cash Equivalents - June 30, 2008 \$ 276,676

Cash Flows from Operating Activities

Operating income	\$ 84,514
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	25,539
Changes in assets and liabilities:	
Decrease in accounts receivable	113,925
Increase in accounts payable	<u>(312,133)</u>
Net cash used in operating activities	<u><u>\$ (88,155)</u></u>

Noncash Activities - The Authority experienced an unrealized loss in the fair value of its investments during the year ended June 30, 2008.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 1 - Nature of Business and Significant Accounting Policies

South Macomb Disposal Authority (the "Authority") consists of five member municipalities in Macomb County, Michigan. The Authority currently provides refuse disposal services primarily for the benefit of four of the five member municipalities. The governing body of the Authority consists of five members - one appointed by each of the five member communities.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the Authority. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are valued at fair value.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The Authority has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

In addition to the Authority investing in accordance with Public Act 20 of 1943, the Authority also states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the Authority's investment portfolio will be invested in a single type or with a single financial institution.

The Authority has designated two banks for the deposit of its funds. The Authority's cash and investments are subject to several types of credit risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not specifically address a deposit policy for custodial credit risk. At year end, the Authority had \$194,694 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of a bank failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk of investments.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agency but not in the Authority's name:

Type of Investment	Carrying Value	How Held
U.S. government and agency securities	\$ 11,041,036	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy is in accordance with state law. At year end, the average weighted maturity for investments was as follows:

Investment	Fair Value	Weighted Average Maturity (in years)
U.S. government and agency securities:		
Federal Home Loan Mortgage Corp.	\$ 2,157,380	10.25
Federal Home Loan Bank	1,270,362	0.96
Federal National Mortgage Association	5,619,854	8.96
Federal Farm Credit Bank	1,993,440	3.21

Credit Risk - State law limits investments in commercial paper to the top two rating issued by nationally recognized statistical rating organizations. The Authority's investment policy is in accordance with the state law. At year end, the credit quality ratings are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. federal agencies	\$ 11,041,036	AAA	Moody's

Concentration of Credit Risk - The Authority states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the Authority's investment portfolio will be invested in a single type or with a single financial institution.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

At year end, the Authority had the following investment concentrations:

U.S. government agencies:

Federal Home Loan Mortgage Corp.	19.54%
Federal Home Loan Bank	11.51%
Federal National Mortgage Association	50.90%
Federal Farm Credit Bank	18.05%

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	2007	Additions	Disposals	2008	Depreciable Life - Years
Capital assets not being depreciated -					
Land	\$ 254,963	\$ -	\$ -	\$ 254,963	-
Capital assets being depreciated:					
Site improvements	46,059	-	-	46,059	40
Equipment	135,875	-	-	135,875	7-15
Waste transfer station	1,201,645	-	-	1,201,645	40
Subtotal	1,383,579	-	-	1,383,579	
Less accumulated depreciation for:					
Site improvements	(18,041)	(1,151)	-	(19,192)	
Equipment	(135,875)	-	-	(135,875)	
Waste transfer station	(809,486)	(24,388)	-	(833,874)	
Subtotal	(963,402)	(25,539)	-	(988,941)	
Net capital assets being depreciated	420,177	(25,539)	-	394,638	
Net capital assets	\$ 675,140	\$ (25,539)	\$ -	\$ 649,601	

Note 5 - Net Assets

The Authority has designated certain net assets related to postclosure care and potential remediation activities. The designated net assets include proceeds from several litigation settlements with the Authority's insurers for remediation of the Authority's landfill sites. As part of these settlements, the insurers may be held to pay future defense costs but not remediation costs for the remaining two sites operated by the Authority. The amount of net assets designated totals approximately \$4,934,000, which includes approximately \$232,000 of the capital assets of the Authority. The Authority has designated these funds in a postclosure care/insurance reserve fund to pay for the potential remediation of the remaining two landfill sites (see Note 7).

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical and life insurance claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Postclosure Care, Remediation Costs, Commitments, and Contingent Liabilities

Current state and federal laws and regulations require final covers on active landfill sites and the performance of certain maintenance and monitoring functions at the site for 30 years after closure. As of June 30, 2008, the Authority has two landfill sites for which it has continuing postclosure maintenance and monitoring responsibilities. The Authority reports annual closure and postclosure care costs as an operating expense in each fiscal year.

The Authority has also recorded an estimated liability for a study on these two landfill sites to assess the level of contamination and to determine the level of potential remediation costs. The entire liability related to this study has been recorded as a current liability of \$280,000.

During the current year, the Authority was contacted by Huron Clinton Metro Authority who is seeking reimbursement for expenses of approximately \$80,000 related to testing and environmental investigation on the two owned sites. The Authority's legal counsel has responded indicating that they do not believe there is a liability to the Authority. After the Authority's response, there have been no further claims regarding this issue. However, the Authority is in the process of interviewing firms with environmental background in the event that this matter is further pursued by the Huron Clinton Metro Authority. No provision has been made for the ultimate liability, if any, that may result from the resolution of this matter.

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 7 - Postclosure Care, Remediation Costs, Commitments, and Contingent Liabilities (Continued)

The Authority had previously received a total of approximately \$5,700,000 in landfill grant funds from the State of Michigan to assist with the remediation of Sites 9 and 9a that are no longer owned by the Authority. The State demanded that these funds be returned since the Authority received reimbursement from its insurers. On May 4, 2005, the Macomb County Circuit Court upheld the State's demand, which the Authority appealed to the State of Michigan Court of Appeals. On October 17, 2006, the State of Michigan Court of Appeals affirmed the decision and mandated the Authority to pay back to the State of Michigan the grant monies previously received. However, the State of Michigan Court of Appeals indicated that the current ruling could be reduced by previous costs the Authority incurred in obtaining the insurance reimbursement for the sites. The State of Michigan Court of Appeals directed this decision to be made at the Macomb County Circuit Court level. On August 6, 2007, the Macomb County Circuit Court upheld the decision that the Authority would need to repay the full amount of landfill grant funds of approximately \$5,700,000 back to the State of Michigan plus interest. Per agreement date July 23, 2008, the liability owed back to the State of Michigan as of June 30, 2008 is \$6,610,739; this includes all accrued interest as of year end. The attorneys that represented the Authority in its claim against the insurers will reimburse \$469,521 of legal fees to the Authority. The payable and receivable are reflected in the Authority's statement of net assets as of June 30, 2008. The liability was fully paid by the Authority to the State of Michigan on November 4, 2008. The amount paid was approximately \$6,681,000. The additional \$69,899 represents interest accrued from July 2008 to November 4, 2008.

Note 8 - Postemployment Benefits

The Authority provides healthcare benefits to all full-time employees upon retirement. Currently, three retirees are receiving benefits. The Authority includes retirees and their dependents in its insured healthcare plan, with no contribution required by the participants.

Expenditures for postemployment healthcare benefits are recognized as insurance premiums become due; during the year, this amount was approximately \$6,250.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

South Macomb Disposal Authority

Notes to Financial Statements June 30, 2008

Note 8 - Postemployment Benefits (Continued)

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

South Macomb Disposal Authority

Report to the Board of Directors

June 30, 2008

To the Board of Directors
South Macomb Disposal Authority

We have recently completed our audit of the basic financial statements of South Macomb Disposal Authority (the "Authority") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, and recommendations which impact the Authority.

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We are grateful for the opportunity to be of service to the South Macomb Disposal Authority. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 3, 2008

Report on Internal Control

December 3, 2008

To the Board of Directors
South Macomb Disposal Authority

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the South Macomb Disposal Authority's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In addition, we would like to commend the South Macomb Disposal Authority (the "Authority") and its staff for the commitment put forth during the past few years to ensure that the Authority received an unqualified opinion. Due to the size of the organization, the Authority has elected to have one position be responsible for the majority of the operation's accounting. In addition, the Authority has elected to maintain books throughout the year on a cash-type basis versus a full accrual basis. While the board does a good job in its fiduciary oversight function, lack of segregation of duties is inherent with one individual being responsible for the majority of the accounting functions and full accrual entries need to be fully posted for year-end financial statements. While the financial statement records were completed, this structure did lead to internal control deficiencies noted below during the fiscal year ended June 30, 2008.

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a certain deficiency in internal control that we consider to be a material weakness, as defined above:

- **Account Reconciliations and Journal Entry Posting**

As the board of directors is aware, the Authority maintains the books on a cash-type basis during the course of the year. The Authority has continued to assume increasing responsibilities for the calculation and posting of year-end accrual entries by providing the Authority's staff with quarterly accounting assistance from an outside source. The Authority has historically enlisted the Plante & Moran auditors to assist in determining the remaining accrual adjustments to the accounting records at the end of the year. While the quarterly assistance has allowed the Plante & Moran auditors to have fewer adjustments at year end and has served to help the Authority to comply with the new auditing standards, the year-end reconciliation process did result in various significant cash to accrual adjustment related to legal liability adjustments and beginning net asset adjustments that resulted from prior fixed asset clean-up. These adjustments were a direct result of auditing procedures performed. The board has determined that the processes implemented by the Authority result in the most cost-effective and value-added method of complying with the requirements for full accrual statements.

December 3, 2008

We noted the following significant deficiency that in our judgment is not considered to be a material weakness:

Segregation of Duties

Strong internal controls attempt to segregate the three duties associated with custody, authorization, and recordkeeping for any transaction. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the Authority does not have an adequate segregation of accounting duties due to one individual performing the three duties noted above. The Authority's board has worked to mitigate the risk noted above by reviewing all disbursements before being remitted, initiating wire transfers, and reviewing overall cash balances and bank statements. However, in order to further strengthen the controls, we suggest that a timely secondary review of the bank reconciliations be done monthly, including evidence through a sign-off and date of this procedure by another member of the Authority's management or board. We also suggest that journal entries posted monthly be reviewed by another member of the Authority's management or board and any change to pay rates or employee status be reviewed by another member of the Authority's management or board each payroll period. These enhanced procedures could help to identify errors in a timely manner and improve the overall controls at the Authority.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Mark R. Hurst



Kathryn J. Kercorian

Results of the Audit

December 3, 2008

To the Board of Directors
South Macomb Disposal Authority

We have audited the financial statements of South Macomb Disposal Authority (the "Authority") for the year ended June 30, 2008 and have issued our report thereon dated December 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 13, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Authority. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 13, 2008 regarding our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Authority including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our planning letter dated October 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were contingent liabilities relating to outstanding lawsuits against the Authority.

Management's estimates of liabilities relating to contingent liabilities are based on historical and current information, as well as legal counsel's opinion related to outstanding cases. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 3 - Deposits and Investments and Note 7 - Postclosure Care, Remediation Costs, Commitments, and Contingent Liabilities.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

December 3, 2008

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements were detected as a result of audit procedures and were corrected by management related to the reconciliation from cash to accrual of the legal liabilities and the reconciliation of beginning net assets. The adjustments included an adjustment to the legal liability account, legal expenses, fixed asset balance, and net assets.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the board of directors and management of South Macomb Disposal Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Mark R. Hurst



Kathryn J. Kercorian

Other Comments and Recommendations

Other Comments and Recommendations

Reminder - Change in Investment Act

- Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

Other Legislative Items

- As part of Michigan's new Planning Enabling Act, many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. Due to the Authority being a special purpose entity, this Act does not apply to the Authority.

However, Plante & Moran strongly encourages the development of a five-year operating fund capital plan. We strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. The Authority will then be able document its plan for capital needs over the next five years. This capital needs plan can then be compared to the current operating net asset level to determine if the unrestricted net asset balance is sufficient to fund the Authority's future capital needs. This can then be incorporated in an overall rate plan for the member communities.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as Public Act 20 which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.

Retiree Healthcare Benefits

- Please keep in mind that beginning on July 1 2009, new accounting rules will require an actuarial valuation to determine the annual contribution that would be necessary to fund retiree healthcare costs over a 30-year period.

While the accounting rules do not (cannot) require you to make any annual contributions to pre-fund this obligation, the liability size will cause the board of directors to have to debate the merits of funding some or all of the recommended contribution.

Annual Reminder - Reporting Requirements

- As a reminder, the Authority will need to complete a municipal finance qualifying statement online with the State of Michigan by December 31, 2008. The Authority should have been given a password to use in this process. Please call us if you would like assistance in filling it out.